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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000305

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [AJ](#) [KZ](#) [GG](#) [TR](#)
SUBJECT: BTC COMPLETION ON TRACK FOR MAY; BP WORRIES GOAJ
ENERGY POLICY ADRIFT

REF: BAKU 1890

Classified By: DCM Jason Hyland, reasons 1.4 (b), (d) and (e).

¶1. (C) SUMMARY. In his February 16 meeting with DCM (attending for Ambassador) and the British Ambassador, AIOC President David Woodward reported that BTC appears on schedule to send oil from Ceyhan by the end of May, with public ceremonies to take place in June. However, this depends on BP achieving a final agreement on outstanding issues with BOTAS. If more ACG oil cannot be sent out by rail, BP may have to throttle back on ACG production until BTC is ready. SCP progress continues, but Woodward is disappointed at the GOAJ's failure to respond to a BP-proposed plan that would meet the GOAJ's stated goal of increasing the amount of associated gas it gets from the ACG field. Pointing to this and other events, Woodward characterized the GOAJ and SOCAR as adrift and unfocused on energy policy -- a situation exacerbated by recent changes in Azerbaijan's energy establishment. END SUMMARY.

OIL: STEADY PROGRESS WITH BTC

¶2. (C) AIOC President and BP senior executive David Woodward began his monthly meeting with DCM (attending for Ambassador) and the British Ambassador with the announcement that, for the first time, BTC is slightly ahead of schedule. The pipeline has been filled to a little over half its capacity (5.6 of 10.3 million barrels). BP is still working on a commercial agreement with Turkish pipeline company BOTAS to settle outstanding debts related to overruns and other issues, and this deal will likely be concluded at the end of March. Woodward noted that the terms of the deal will have to be acceptable to Azerbaijan, as Azerbaijan is a stakeholder in the project.

¶3. (C) The first lifting of BTC oil from Ceyhan still looks to be set for the end of May, said Woodward, and the public event celebrating the completion of BTC will likely take place in June -- probably in the second or third week thereof to avoid conflicts with the Caspian Oil and Gas Show in Baku

the first week of June or the CERA meetings in Istanbul at the end of the month. In the meanwhile, BP is working with SOCAR to increase the amount of oil they are shipping out via rail. SOCAR, said Woodward, seems reluctant to do this -- probably because it wants to use the rail route for its own volumes. If BP can't send any more oil by rail, BP is faced with the unappetizing option of having to cut back production at the Azeri-Chirag-Guneshli (ACG) field which feeds BTC since the northern and western "early oil" pipelines are at capacity.

GAS: PROGRESS WITH SHAH DENIZ BUT NOT ACG

14. (C) In gas matters, Woodward said that the TPG 500 platform is set to sail out to Shah Deniz in March. Construction is progressing on the South Caucasus Pipeline (Baku-Tblisi-Erzurum) and the project looks on track to deliver gas in September. Woodward promised a briefing on gas issues for the British and American Ambassadors for early March.

15. (C) A few months ago, Woodward noted, the GOAJ had requested BP to provide Azerbaijan with more of the associated natural gas from ACG. Currently, BP reinjects most of the associated gas from ACG back into the field to increase pressure and thus ensure greater oil production. The leftover associated gas (about 1.4 bcma) is piped to shore for Azerbaijani domestic use. The GOAJ would like to double this figure and get 3.0 bcma. Having less gas to reinject would negatively impact oil production, so BP offered to provide additional gas in exchange for the right

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to exploit the large gas field that lies below ACG. The GOAJ has still not responded to this proposal, said Woodward, although it seems to expect the gas.

GOAJ ENERGY POLICY "ADRIFT"?

16. (C) Woodward said that the ACG associated gas project is not the only area where BP is having difficulties with SOCAR. For example, he noted, SOCAR has yet to approve BP's 2006 work plan for ACG. Additionally, SOCAR has not followed through on projects that SOCAR itself has initiated, and there has been no progress with BP's plans to exploit fields near the Absheron peninsula. The construction of BP's new headquarters, financing of which was connected to a business unit of the former Azpetrol, likewise remains stalled.

17. (C) Taking the above into account, Woodward characterized SOCAR as adrift, perhaps due to recent leadership changes in its energy sector (reftel). He opined that in general the GOAJ does not seem focused on energy issues any more, and seems less interested in pursuing new projects than on enjoying the fruits of BTC and SCP. Woodward said that President Aliyev is not paying much attention to energy issues at the moment, and without his leadership the natural tendency of the GOAJ is inaction. Avian flu is another example, said Woodward. The GOAJ has asked that BP prepare an isolation facility in case of avian flu problems but has provided no real guidance.

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